

IN THE MATTER OF THE APPLICATION OF)	
DELMARVA POWER & LIGHT COMPANY,)	
CONECTIV COMMUNICATIONS, INC.,)	
POTOMAC ELECTRIC POWER COMPANY, AND)	
NEW RC, INC., FOR PERMISSION TO TRANSFER)	PSC DOCKET NO. 01-194
CONTROL OF DELMARVA POWER & LIGHT)	
COMPANY AND CONECTIV)	
COMMUNICATIONS, INC., UNDER THE)	
PROVISIONS OF 26 <u>DEL. C.</u> §§ 215 AND 1016)	
(FILED MAY 11, 2001))	

PROPOSED SETTLEMENT

On this day, November 30, 2001, Delmarva Power & Light Company ("Delmarva"), Potomac Electric Power Company ("Pepco"), Conectiv Communications, Inc. ("CCI") and New RC, Inc. ("New RC") (together, the "Applicants") and the other undersigned parties (all of whom together with the Applicants are the "Settling Parties") hereby propose a settlement of all issues in these proceedings.

I. BACKGROUND

On May 11, 2001, the Applicants, including Conectiv Communications, Inc. ("CCI"), filed an application (the "Application") before the Delaware Public Service Commission ("Commission") pursuant to 26 Del. C. §§ 215 and 1016 seeking permission to transfer indirect control of Delmarva and CCI to New RC and Pepco.¹ Included in support of the Application was pre-filed testimony: 1) jointly by Pepco Chairman and Chief Executive Officer John M. Derrick, Jr. and Conectiv President and Chief Operating Officer Thomas S. Shaw; 2) Dr. Joe D. Pace; and 3) Mr. Derek W. HasBrouck.

¹ It should be noted that CCI will technically remain in existence as a telephone utility and hence remains an applicant notwithstanding a sale of most of its assets and all of its retail customer accounts to Cavalier Telephone, LLC under a separate transaction.

The proposed transfer of control will be effectuated through a series of transactions, as set forth in the Application and in more detail in the Agreement of Merger attached to the Application. In brief synopsis, Delmarva's corporate parent, Conectiv, will become a wholly-owned subsidiary of a new holding company, temporarily named New RC. Pepco will also be a wholly-owned subsidiary of New RC. The end-result is that New RC will own, directly, or through Conectiv, three operating utility companies, Pepco, Delmarva and Atlantic City Electric Company.

On May 22, 2001, in Order No. 5722, the Commission established this proceeding, assigned the matter to the Hearing Examiner, established a date for an initial pre-hearing and public conference of June 18, 2001, and ordered newspaper publication of a notice of the Application and Commission Order, which notice also specified a deadline and method for filing petitions to intervene. Public notice of the Application and Commission Order was duly published (Ex. 1).

At the June 18, 2001 pre-hearing conference, a procedural schedule was developed and approved. Public hearings were also scheduled and held on September 10, 2001, in Wilmington, Delaware, September 12, 2001, in Dover, Delaware, and September 18, 2001, in Georgetown, Delaware. Transcripts of those public hearings were taken. In addition, evidentiary hearings were scheduled to begin on November 28, 2001.

Either as the result of timely intervention or unopposed late intervention, the parties to this case, in addition to the Applicants, Commission Staff ("Staff") and the Division of the Public Advocate ("DPA"), are: International Brotherhood of Electrical Workers ("IBEW") Local Union 1307; BOC Gases, Inc. ("BOC"); the Consumers

Education & Protective Association of Delaware ("CEPA"); Mr. Bernard J. August; Cable Telecommunications Association of MD, DE & DC; Old Dominion Electric Cooperative ("ODEC"); the Delaware Electric Cooperative ("DEC"); the Delaware Energy Users Group ("DEUG"); and AES NewEnergy, Inc. ("NewEnergy").

On or about October 17, 2001, direct testimony was submitted by certain parties to this proceeding. Staff submitted testimony by Ms. Janis L. Dillard, Dr. John Stutz, and Dr. J. Duncan Glover. DPA submitted testimony by Ms. Andrea C. Crane. ODEC and DEC submitted testimony of: J. William Andrew, Ricardo R. Austria, John Rainey, and H. Charles Liebold.

In October, informal settlement meetings to which all parties were invited were also held. On November 1, 2001, an agreement in principle was reached that was supported by most, but not all, parties to the case. That agreement is as follows.

II. PROPOSED SETTLEMENT

A. Rate Provisions Effective October 1, 2002

1. Effective October 1, 2002, and applicable to all non-residential rate classes other than those receiving service under Rate Class SGS-ND², the Competitive Transition Charge ("CTC") rates in effect as of September 30, 2002, which reflect costs that had been removed from the supply component of rates and added to the delivery component

² For purposes of this Settlement, Separately Metered Space-Heating and Water Heating Services provided to customers whose primary meter is served under either the SGS-ND or the MGS-S classification will be treated as if served under SGS-ND. As discussed in greater detail in Docket No. 99-163, Delmarva's billing system does not provide separate identifiers that would permit a distinction to be made between these separately metered services provided to customers with primary meters served under SGS-ND and those served under MGS-S.

in Docket No. 99-163, shall be moved from the delivery component of rates and reassigned back to the supply component of rates. The CTC rate components in effect on September 30, 2002, by applicable service classification and using the same demand, energy on-peak/off-peak, and seasonal factors, shall each be added to the comparable supply rates and no longer carried on the tariff leafs as separate line items, so there will be a zero net change in revenues.

2. Effective October 1, 2002, and applicable to all non-residential rate classes other than those receiving service under Rate Class SGS-ND, the rate factors embedded within the distribution component of rates that reflect nuclear decommissioning costs included in the rates established in Docket No. 99-163 (as reflected in Appendix D, Attachment 2 workpapers to the Compliance filing of September 15, 1999 in that proceeding) shall be removed from the distribution component of rates and these same rate factors, by applicable service classification and using the same demand, energy on-peak/off-peak, and seasonal factors, shall be added to the comparable supply rates, so there will be a zero net change in revenues.

3. Effective October 1, 2002, and applicable to all non-residential rate classes other than those receiving service under Rate Class SGS-ND, the "returning customers" rule set forth in Delmarva's current retail tariff established in Docket No. 99-163 shall be modified so that a retail customer who has obtained its supply from an Electric Supplier and who returns to Delmarva's Standard Offer Service on or after October 1, 2002, shall be obligated to pay for its supply charges pursuant to either Delmarva's Market Priced Supply Service ("MPSS") as modified and attached hereto (Attachment 1), or, if mutually agreeable in each parties' sole discretion, a negotiated market price. A customer who is

served under the MPSS shall be eligible to switch to an Electric Supplier without a minimum stay requirement other than the standard requirement that a switch to an Electric Supplier take place on the customer's next meter read date after appropriate notice of a switch is provided to Delmarva by the Electric Supplier. Any non-residential rate class customer who takes supply from an Electric Supplier and who returns to Delmarva's Standard Offer Service on or before September 30, 2002, however shall have the option of paying Delmarva's Standard Offer Service frozen supply rate in which case it shall be obligated remain as such for a minimum of 12 months before being permitted to enroll with an Electric Supplier.

4. The rate modifications set forth in paragraphs 1 and 2 above shall remain in effect (i.e., shall be "frozen") from October 1, 2002, through September 30, 2003, subject only to changes pursuant to section C.1, herein.

B. Rate Provisions Effective October 1, 2003

1. Effective October 1, 2003, and applicable to all non-residential customers other than those receiving service under Service Classification SGS-ND, the supply components of rates shall be increased such that the supply rate components in conjunction with the supply rate increases pursuant to section II.A.2. are equal to 103% of: 1) the supply rates as in effect as of October 1, 2002, minus 2) the supply rate component increases pursuant to section II.A.2.

2. Effective October 1, 2003, and applicable to residential customers and non-residential customers receiving service under Service Classification SGS-ND, the rate embedded within the distribution component of rates that reflects nuclear decommissioning costs included in the rates established in Docket No. 99-163 (as

reflected in Appendix D, Attachment 2 workpapers to the Compliance Filing of September 15, 1999 in that proceeding) shall be removed from the distribution component of rates. Effective on the same date and for the same customers, an increase of 3% shall be applied to each of the supply component rates.

3. Effective October 1, 2003, and applicable to residential customers and non-residential customers receiving service under Service Classification SGS-ND, the "returning customers" rule established in Docket No. 99-163 set forth in Delmarva's current retail tariff shall be modified so that such a retail customer who has obtained its supply from an Electric Supplier and who returns to Delmarva's Standard Offer Service on or after October 1, 2003, shall be obligated to remain on Delmarva's Standard Offer Service for a minimum period of 12 months before being permitted to re-enroll with a third-party supplier.

4. The rates in effect as of October 1, 2003 shall remain in effect until May 1, 2006, subject to change only pursuant to the provisions of section C below.

C. Exceptions to the Rate Freeze.

1. Nothing in this Settlement shall be deemed to be a waiver of Delmarva's rights under 26 Del. C. § 1006 to seek the recovery of extraordinary costs as the Commission may, in its discretion, determine during the transition period established by statute. Notwithstanding the above sentence, Delmarva agrees not to seek a change in residential retail rates in the fourth year of the existing retail rate freeze established in Docket No. 99-163 to reflect increased supply costs pursuant to the so-called "Side Letter Agreement" section 3(G).

2. Between October 1, 2003, and May 1, 2006, Delmarva may make a filing seeking the recovery of extraordinary costs as the Commission may, in its discretion determine. The Settling Parties reserve all rights to protest or take any position on any such filing.

3. In addition to any other right set forth in this Agreement and notwithstanding any other provision that would otherwise limit the ability of Delmarva to file for a rate change, Delmarva shall have the right to file to change its Transmission components of rates to reflect the then-applicable Transmission charges incurred by Delmarva pursuant to Federal Energy Regulatory Commission ("FERC")-approved transmission charges of the PJM Interconnection, LLC., or successor organization ("PJM"). The proposed Transmission components of retail rates shall go into effect within 30 days of filing, subject to refund and Commission review in a docketed proceeding. In such a retail proceeding, no Settling Party will raise and all Settling Parties participating in the proceeding will oppose any positions taken that such a rate change is inappropriate or should be offset in part or in whole due to changes in other costs, revenues, or other factors (including cost of capital); provided, however, that nothing herein shall restrict a Settling Party from taking the position that the proposed rate change should be offset in whole or in part because Delmarva, in its role as a transmission owner, is earning incremental revenue from parties (including affiliated entities and retail customers) other than Delmarva under the FERC-approved transmission charges; and provided, further, that the proceeding shall consider, and all Settling Parties reserve their rights with respect to, whether to reset transmission rates based on billing determinants and methodologies that correspond to the billing

determinants and methodologies used by PJM to charge Delmarva for transmission. The right to file for a rate increase is limited to one filing with an effective date on or after October 1, 2003, and before May 1, 2006. Nothing herein shall be deemed to restrict any Settling Party's rights to intervene in and take any position with respect to an FERC proceeding relating to the transmission charges of PJM or its successor.

4. In addition to any other right set forth in this Agreement and notwithstanding any other provision that would otherwise limit the ability of Delmarva to file for a rate change, Delmarva shall have the right to file to change its Ancillary components of rates to reflect the then-applicable Ancillary charges billed to Delmarva by PJM or successor organization. The proposed Ancillary components of retail rates shall go into effect within 30 days of filing, subject to refund and Commission review in a docketed proceeding. In such a retail proceeding, no Settling Party will raise and all Settling Parties participating in the proceeding will oppose any positions taken that such a rate change is inappropriate or should be offset in part or in whole due to changes in other costs, revenues, or other factors (including cost of capital); provided, however, that nothing herein shall restrict a Settling Party from taking the position that the proposed rate change should be offset in whole or in part because Delmarva, in its role as a transmission owner providing transmission-related ancillary services, is earning revenue from parties (including affiliated entities and retail customers) other than Delmarva for the ancillary services it provides. The right to file for a rate increase is limited to one filing with an effective date on or after October 1, 2003, and before May 1, 2006. Nothing herein shall be deemed to restrict any Settling Party's rights to intervene in and take any position with respect to an FERC proceeding or any PJM process (including but

not limited to processes involving PJM's Market Monitoring Unit) relating to the ancillary charges of PJM or its successor.

5. Nothing in the existing rate freezes as established in Docket No. 99-163 nor established herein shall be deemed to preclude Delmarva from filing for rates that would be applied to new lighting services or products, back-up or emergency services for distributed generation services, dual-feed services, advanced metering services, or other similar services not currently tariffed and made available as an optional service to customers; provided, however, that there would be no change in the transmission and distribution rates established herein as applied to customers who do not elect to take such optional services; and provided further that it is recognized that while a distributed generation service may be optional from a customer perspective, there may be a mandatory requirement for back-up or emergency services associated with such distributed generation services.

6. Nothing in the existing rate freezes as established in Docket No. 99-163 nor established herein shall be deemed to preclude Delmarva from filing or any Settling Party from petitioning the Commission for revenue neutral rate design proposals that would reflect changes made by PJM or FERC in the definitions and functionalization of transmission and distribution facilities. For purposes of this paragraph, a revenue neutral rate design proposals shall be revenue neutral to Delmarva in the aggregate for all customer classes and revenue neutral within each customer class, i.e., no shifts in revenue responsibility between customer classes. Any such filings shall be subject to Commission review, no Settling Party waives any rights to oppose such filings, and the proposed modifications shall not go into effect unless approved.

7. Nothing in the existing rate freezes as established in Docket No. 99-163 nor established herein shall be deemed to preclude Delmarva from filing for changes to its Rules and Regulations set forth in its existing Delaware retail electric tariff. Any such filings shall be subject to Commission review, no Settling Party waives any rights to oppose such filings, and the proposed modifications shall not go into effect unless approved.

8. The rate freezes established herein shall not apply with respect to the contracts described in section II.F. below.

9. The rate freezes established herein shall not apply with respect to changes that may be proposed by Delmarva or any other party to the size of the credits payable pursuant to or the provisions of the Peak Management Rider or to an alternative load management program that may be developed for larger commercial and industrial customers.

10. Nothing herein shall be deemed to preclude any Settling Party from petitioning the Commission to modify charges in the MPSS to reflect more accurately market costs of the Company's provision of such service.

D. Standard Offer Service.

1. The Settling Parties agree that the Commission should find, pursuant to 26 Del. C. §§ 1006(a)(2) and 1010(a)(2), that: Delmarva shall be the Standard Offer Service supplier for Delmarva service territory until May 1, 2006; the price increases set forth above for the supply component of the Standard Offer Service is representative of the regional wholesale electric market price, plus a reasonable allowance for retail margin; and the next periodic review of this price will occur on or about May 1, 2006, in

conjunction with a process intended to result in the selection of a Standard Offer Supplier on and after May 1, 2006.

2. The Settling Parties recognize and agree that it is within the purview of Delmarva's management to acquire the necessary supply resources to meet its obligations to provide Standard Offer Service through May 1, 2006, and Delmarva, if it deems appropriate in its sole discretion, may meet such obligations by means of a full or partial requirements contract with an affiliated entity, or otherwise.

3. Nothing herein shall be deemed to imply that Delmarva is assuming any supply obligation for Standard Offer Service or otherwise beyond May 1, 2006.

E. Effects of Settlement on Rates Prior to October 1, 2002, and October 1, 2003.

Nothing herein is intended to provide any rights beyond those set forth in present law and applicable orders of the Commission to change rates prior to the end of the rate freeze periods specified in the settlements in Docket No. 99-163, which provide for rate freezes extending through September 30, 2002, for non-residential customers and through September 30, 2003, for residential customers.

F. Contracts for Certain Large, Interruptible Customers.

1. a) BOC and Delmarva agree to terminate, with prejudice, the litigation in Docket No. 00-653 without a final decision being made by the Commission in that proceeding, subject to the following conditions: i) with respect to the period of April 1, 2000 through March 30, 2001, BOC shall pay the amounts withheld (estimated to be in the range of \$662,000 to \$679,000) from the Delmarva portion of its bills for such period and no late payment charges shall be imposed with respect to such amounts; ii) with respect to the period of April 1, 2001 through September 30, 2002, Delmarva shall bill

BOC pursuant to the GS-T service classification rates (as set forth in Tariff Leaf No. 47 and applying the provisions of the GS-T service classification Leaf Nos. 71-72, paragraphs A, C, E, F, G, H, I, J, K and L), except that the Distribution portion of such rates shall be equivalent to rates set forth in Q service classification rates (as set forth in the "Delivery Service Charges on Tariff Leaf No. 48 for firm (750 kW) and controllable load (all other); iii) with respect to any payments made by BOC since April 1, 2001, that are in excess of the amounts billed or to be billed pursuant to subparagraph II.F.1.a)ii), Delmarva shall refund the difference to BOC and no interest shall be paid with respect to such refund amounts; and iv) such provisions shall be part of a Special Interim Contract between BOC and Delmarva. Delmarva and BOC agree that BOC will have no rights or claims to receive service under Q service classification at any time in the future.

b) The amounts to be paid by BOC under subparagraph II.F.1.a)i) and to be refunded by Delmarva under subparagraph II.F.1.a)iii) may be netted for administrative convenience, if mutually acceptable.

c) For the period between the date on which the Commission approves this Settlement and October 1, 2002, the Special Interim Contract will provide for a hybrid service that will apply such that certain provisions relating to, for example, the events giving rise to the right to call for interruptions, notice periods for interruptions and similar requirements applicable herein to the Distribution service shall be as set forth in the Q service classification, while the non-Distribution services of the hybrid service, including rates, computations of demand factors, minimum charges, and similar items shall be as set forth in the GS-T service. Specifically, paragraphs E, F, H, I, K, L, M., P, Q, and R of the Q service classification tariff leaves shall be applicable to the Distribution

component of service, except that (1) the charges applied in paragraph L.1 and the penalties associated with paragraph M shall be deemed to reference the charges applicable under the GS-T service classification and (2) for purposes of paragraph K, BOC shall be deemed to receive only the Distribution service from Delmarva and requests for load reductions shall only be made to prevent or minimize an emergency operating condition on Delmarva's electric system. For all other components of service, the provisions of paragraphs A, C, D, E, F, G, H, I, J, K, and L of the GS-T service classification shall apply. BOC recognizes that an interruption of Distribution service will also result in an interruption of other services.

d) No later than 90 days prior to October 1, 2002, and sooner if convenient for both parties, BOC and Delmarva shall enter into good faith negotiations in an attempt to reach a mutually-acceptable contract for service on and after October 1, 2002. It is recognized that any such contract, if not in full compliance with a standard tariffed service, will be subject to the requirements of Delmarva's Negotiated Contract Rate service, including the requirements that: i) BOC has an economic competitive alternative to full or partial service from the Company's standard tariff rates; ii) BOC is likely to select such an alternative if Delmarva does not provide a negotiated contract rate offer; and iii) BOC will provide net revenues above Delmarva's incremental costs to provide service. Neither BOC nor Delmarva represent that good faith negotiations will necessarily be successful. BOC recognizes that, in the event that BOC and Delmarva do not reach a mutually satisfactory Negotiated Contract Rate agreement, each acting in its sole discretion, or if such a Negotiated Contract Rate agreement is reached but is not permitted to become effective by the Commission, BOC will accept service from

Delmarva on and after October 1, 2002, provided and billed under Delmarva's GS-T service; provided, however, that in such event, BOC shall have the right, to the extent permitted by tariff, to elect the Peak Management Rider, or other load management provision that is a tariffed service; and provided further that, in such event, BOC shall also have the right to obtain load management services or credits from third party marketers.

e) Notwithstanding the existing "returning customer" rule in Delmarva's tariff, as of the later of approval by the Commission of this settlement or January 1, 2002, and for one-time only, BOC shall have the right to obtain its transmission, ancillary, and supply services from a competitive supplier.

2. Occidental Chemical Corporation ("OxyChem") is an existing Q customer with a contract for which Delmarva has given a notice of termination effective as of November 1, 2002. No later than 90 days after this Settlement is approved, and sooner if convenient for both parties, OxyChem and Delmarva shall enter into good faith negotiations in an attempt to reach a mutually-acceptable agreement for service on and after October 1, 2002. It is recognized that any such agreement, if not in full compliance with a standard tariffed service, will be subject to the requirements of Delmarva's Negotiated Contract Rate service, including the requirements that: i) OxyChem has an economic competitive alternative to full or partial service from the Company's standard tariff rates, including, e.g., fuel switching, facility relocation or expansion, partial or complete plant production shifting, or potential physical bypass; ii) OxyChem is likely to select one or more of such alternatives if Delmarva does not provide a negotiated contract rate offer; and iii) OxyChem will provide net revenues above Delmarva's incremental

costs to provide service. Neither OxyChem nor Delmarva represent that good faith negotiations will be successful. OxyChem recognizes that in the event that OxyChem and Delmarva do not reach a mutually satisfactory Negotiated Contract Rate agreement, each acting in its sole discretion, or if such a Negotiated Contract Rate agreement is reached but is not permitted to become effective by the Commission, OxyChem will accept service from Delmarva on and after November 1, 2002, provided and billed under Delmarva's GS-T service; provided, however, that in such event, OxyChem shall have the right, to the extent permitted by tariff, to elect the Peak Management Rider, or other load management provision that is a tariffed service; and provided further that in such event, OxyChem shall also have the right to obtain load management services or credits from third party marketers. The Settling Parties agree that OxyChem will have no rights or claims to receive service under Q service classification at any time in the future after November 1, 2002.

3. CitiSteel USA, Inc. ("CitiSteel") is an existing Q customer with a contract with an initial term expiring in May 2004. Delmarva and CitiSteel shall enter into an agreement (the "Replacement Contract") on or before June 1, 2002, that will terminate the service under the Q service classification as of September 30, 2002, but, for the period between October 1, 2002, and the termination date of the existing contract, will provide rates, terms and conditions that are the same as the currently existing contract and Q service classification as they currently exist. The Replacement Contract, which may in the form of amendments to the existing contract or a completely new contract, will be filed with the Commission and the Settling Parties will either support its effectiveness or not oppose its becoming effective on grounds that such Replacement

Contract imposes no incremental costs beyond those presently incurred by Delmarva under the existing contract. The Replacement Contract will not be assignable except upon written consent by Delmarva, which consent shall not be unreasonably withheld. Contingent on the execution of the Replacement Contract, the Settling Parties agree that CitiSteel will have no rights or claims to receive service under Q service classification at any time in the future after October 1, 2002.

4. Delmarva and BOC recommend that the Commission explicitly waive or eliminate any requirement as set forth in Order No. 2852, dated June 9, 1987, that Delmarva develop a tariffed service that would be available to customers similarly situated to BOC and further explicitly find that such waiver or elimination of such requirement also be found to apply with respect to BOC.

5. Notwithstanding any other provision of the Settlement, the provisions of this subsection II.F. shall become effective as of the date the Commission approves this Settlement.

G. Corporate Presence

Applicants agree that for the next 5 years, Conectiv Power Delivery's operational headquarters will remain in Delaware, that there will be a significant senior management presence working in offices in Delaware. Applicants agree that for the next six years, Conectiv will make contributions to charities in Delaware at levels comparable to its historic levels. The Settling Parties recognize that, pursuant to agreements not jurisdictional to this Commission, existing union contracts will be honored, which contracts include specific provisions relating to the preservation of union jobs for employees represented by the IBEW locals and relating to severance and benefits. In

addition, Applicants agree within 30 days after closing to make a one-time contribution to Murex Investments in the amount of \$750,000, which contribution may be in the form of an investment or a gift, at Applicants' discretion; provided, however, that the contribution shall be in a form that would trigger a matching contribution of federal or Small Business Administration funds to the extent such funds are available. Such contribution shall be conditional on an obligation on the part of Murex to expend such contribution for job training or small business development within Delmarva's Delaware service territory and on Murex making its best efforts to expend the matching contribution from the federal Small Business Administration for job training or small business development within Delmarva's Delaware service territory.

H. Merger-Related Costs.

1. Applicants agree not to seek recovery in future rates of Delaware's portion of: (1) merger transaction costs, estimated to be \$46 million, as shown on page 33 of the merger Form U-1 on file with the U. S. Securities and Exchange Commission; (2) the merger acquisition premium paid by Pepco; (3) the costs of any termination or severances that occur within an eighteen month period following closing of the merger, including merger-related severances or terminations that are agreed to by Applicants within the eighteen month period that becomes effective only after the close of that period.

2. With respect to merger-related transition costs other than termination and severance costs, the Settling Parties recognize that defining the categories of such costs precisely at this point in time is difficult. It is presumed that costs incurred more than 18 months after closing are not merger-related. It is further recognized that, because regulated rates are frozen until May 1, 2006, with certain specified exceptions, the

potential recovery of merger transition costs will be limited. It is therefore the Settling Parties understanding that in future rate cases, normal ratemaking principles and presumptions will operate such that Delmarva has the burden of proof that its rates are just and reasonable and reflect test period expenses that are properly included in its revenue requirement computations; other Settling Parties reserve their rights to assert that such costs are merger-related and should not be recoverable.

3. Applicants agree that if the merger does not close, Delmarva will not seek to recover in rates any termination fees or other fees, costs, or expenses incurred with respect to the merger.

I. Renewable Resources, Conservation Programs and Advanced Metering.

1. Applicants agree that within 60 days after closing a one-time contribution of \$200,000 shall be made to an organization to be designated by the Staff and DPA for the promotion of renewable resources in Delaware. In addition, Delmarva will include as a bill insert in one month of billing within the first year after closing, information to customers advising them of the existence of such organization and providing the information necessary to permit customers to submit contributions directly to such organization. The text of such billing information shall be previewed with the Staff and DPA prior to its inclusion as a bill insert.

2. Applicants agree to participate in a working group that will be charged with the responsibility to identify any cost-effective demand-side management or conservation programs and develop specific program recommendations.

3. Delmarva agrees to work in good faith with Staff and other interested parties (whether part of this proceeding or not) to initiate a pilot program for

approximately 250 residential or small commercial customers that would test the appropriateness of larger-scale initiatives or offerings with respect to real-time metering or advance-pay metering, or other similar metering technologies.

J. Customer Guarantees.

1. Applicants proposed nine service level guarantees ("SLGs") in this proceeding. The Settling Parties agree that the review of five of those SLGs and any modifications to be made with respect to those five SLGs should be made in other pending cases before the Commission. Specifically, the proposed SLGs relating to telephone service factor and abandonment rate shall not be reviewed or approved in this proceeding, but such matters are to be addressed in Docket No. 99-328; the proposed SLGs relating to the CAIDI statistic, SAIDI statistic, and poor performing circuits shall not be reviewed or approved in this proceeding, but such SLGs are to be addressed in Regulation Docket No. 50. Delmarva further agrees that it shall not assert in Regulation Docket No. 50 that the Commission lacks the power to establish a poor performing circuit standard that includes a provision providing for a penalty if such standard is violated; provided, however, Delmarva retains all rights to argue that no such penalty is appropriate or lawful or imposed consistently with its due process rights and all Settling Parties, including Delmarva, retain their rights to argue on the merits as to what standard, if any, should be established.

2. With respect to the SLG relating to "Appointments Kept," the Settling Parties agree that the Commission should approve such SLG as filed by Delmarva, with the modification that there will be no exemptions for rescheduling appointments unless such rescheduling occurs no later than the close of business on the last business day prior

to the date of the appointment. With respect to the SLG relating to "New Residential Customer Installations," the Settling Parties agree that the Commission should approve such SLG as filed by Delmarva, except that the guarantee will be extended to cover re-energizing existing services at the same premise. It is understood that Delmarva will establish an internal goal for such re-energizing to occur within 3 business days, but the guarantee will apply only if there is a failure to re-energize within 10 days. With respect to the SLG relating to "Bill Accuracy," the Settling Parties agree that the Commission should approve such SLG as filed by Delmarva. With respect to the "Outage Restoration" SLG, the Settling Parties agree that the Commission should approve such SLG as filed by Delmarva, except that there will be a \$50 payment for each additional 24 hours or portion thereof of an outage extending beyond 48 hours.

3. Nothing in this subsection II.J., shall be deemed to supersede or limit any existing right that a customer may have with respect to complaints, bill adjustments, or other processes involving customer service.

K. Competitive Supplier Provisions.

1. Delmarva agrees that in the event a competitive supplier proposes to the appropriate entities a modification to regional standards regarding the 867HU transaction to include LDC rate code and profile group as optional fields, then Delmarva will support such a modification; and within a commercially reasonable time after the implementation of such a regional modification, Delmarva will modify its 867HU transaction processes to permit such information to be exchanged with an EDI-capable counterparty.

2. Subject to the caveats and exclusions herein, and applicable to customers who, prior to June 20, 2000, entered into Peak Management Rider ("PM Rider") contracts

for periods in excess of one year Delmarva will eliminate the provision in the PM Rider that requires a PM customer to purchase its electricity from Delmarva. With such elimination, such customers will be able to choose any Electric Supplier, who will be obligated to purchase "unforced capacity" (as that term is defined by PJM, or a comparable successor term if so redefined by PJM) sufficient to meet the customer's unrestricted Peak Load Contribution (as annually computed by Delmarva including the add back of the Active Load Management ("ALM") amounts), energy, and transmission and ancillary services, without the customer terminating its PM Rider contract with Delmarva. The Settling Parties recognize that the intent of such modifications is to allow the customer to obtain its electric requirements from an Electric Supplier while continuing to receive the PM Rider payments from Delmarva and for Delmarva to retain the benefits that PJM ascribes to ALM. In order to be eligible for this treatment, the customer and Electric Supplier must have a contract in place (and the Electric Supplier must so certify to Delmarva) that provides the customer with specific notice that if PJM reduces or eliminates the benefits of ALM to Delmarva due to the customer's enrollment with the Electric Supplier, then the PM Rider contract will be subject to termination at Delmarva's sole discretion on 30 days notice. In addition, the PM Rider will be modified to provide a penalty up to the total amount of Peak Management credits paid by Delmarva to the customer within a given year in the event that Delmarva calls for an interruption or reduction of load consistent with the PM Rider and the customer fails to comply to the extent required and Delmarva will have the right to terminate the PM Rider contract for a failure of a customer to comply. Nothing herein shall be deemed to affect other provisions that may be in a contract between Delmarva and a customer who is

receiving PM Rider credits. The PM Rider minimum contract term shall also be modified from a calendar year basis to any period of 12 months and year-to-year thereafter, subject to termination on 60 days' notice by either party. For PM Rider contracts with an effective date beginning on or after July 31 of a given year, the minimum period will be 12 months with a maximum period extending through the end of the next subsequent PJM planning period (e.g., an August 2002 contract could extend through May 2004), and year-to-year thereafter, subject to termination on 60 days' notice by either party.

L. Interval Customer Data

Delmarva agrees to make best efforts to develop and implement within 9 months after the merger closes (but in no event later than 12 months), a web-based mechanism to permit the transfer, without manual intervention on the part of Delmarva, of historic interval data for its Delaware retail customers that have interval recording devices that record such interval load. Nothing herein shall be deemed to waive any obligations on the part of a user of such data to comply with requirements of the Commission with respect to receipt of customer information. The web-based data will be periodically updated, but no more frequently than once a quarter. Nothing herein shall be deemed to modify existing warranty limitations and provisions in Delmarva's Supplier Agreement regarding data provided to Electric Suppliers. The fees for interval data shall cease no later than 12 months after the merger closes. Delmarva has stated an intent to terminate its manual process at some point after the web-based mechanism is in operation; Settling Parties neither support nor oppose such intent by Delmarva and reserve their rights.

M. Reliability Provisions.

1. Delmarva has stated that Delmarva currently meets all current PJM and MAAC reliability criteria through 2006, assuming that its planned transmission construction projects are completed. Unless circumstances change that eliminate the need for such projects or accelerate or postpone the need for such projects, Delmarva agrees to construct those planned projects as scheduled, and, in the event circumstances do change, Delmarva will consult with Staff and DPA as to resultant changes to its project schedules prior to modifying its plan.

2. Delmarva also agrees to construct by May 2008, projects known as the: Piney Grove Autotransformers; the Mt. Hermon – North Salisbury project; and the Todd-Vienna 69 kV bus work. The in-service dates set forth in this subsection are subject to change if circumstances change on the peninsula such that need for such projects is accelerated, eliminated, or postponed. In the event circumstances do change, Delmarva will consult with Staff and DPA as to resultant changes to its project schedules prior to modifying its plan.

N. Congestion Provisions.

1. The Settling Parties agree that it is their intent to establish cost-effective mechanisms that will operate to limit congestion hours on the Delmarva Peninsula to the levels at or below the prescribed thresholds outlined herein. This subsection II.N. shall become effective on an interim basis as of the date that the Commission issues a final order approving this Settlement and shall become final upon closing of the merger;

provided, however, that if the merger is terminated and does not close, this subsection II.N. shall be eliminated and have no force or effect.

2. Delmarva agrees to accelerate the 2007 planned in-service date of the Red Lion – Milford - Indian River 230 kV transmission line to May 2006. Prior to any changes to this schedule for any reasons, Delmarva will consult with Staff and DPA.

3. For the period beginning on January 1, 2002, Delmarva will track, using the "Off-Cost Operations" data on the PJM web-site, the number of hours of congestion on Delmarva's on-peninsula transmission system.

4. a) The provisions of this subsection II.N.4 shall be applicable in the event that the sum of the hours of Off-cost Operations for all of Delmarva's on-peninsula transmission facilities (non-facility specific) exceeds the applicable threshold for the annual number of hours during which one or more of Delmarva's on-peninsula transmission facilities are constrained. The applicable annual aggregate number of hours (the "triggering event thresholds") are as follows: 1000 hours in calendar-year 2002, 850 hours in calendar year 2003, 700 hours in calendar year 2004, 600 hours in calendar year 2005, and 200 for the period January 1 – April 30, 2006) (with such hours excluding Off-cost Operations attributable to generation or transmission forced outages and excluding generation or transmission construction).³ In calculating the hours toward a triggering

³ As used herein this subsection II.N., "transmission construction" includes new construction of transmission lines and substations, and upgrades and rebuilds of existing facilities, but does not include maintenance. "Transmission forced outages" means outages of transmission lines or substations that are from causes outside the control of Delmarva including but not limited to major storms, fires, and events of force majeure. It is understood that a major, unexpected, premature failure of equipment may trigger a study that would identify the least-cost, economic solution for congestion to be the replacement or upgrade of the equipment that failed.

event threshold Delmarva shall include each hour where a transmission facility maintenance outage is listed on PJM's Off-cost Operations, except that certain hours may be excluded as follows: if Delmarva, which has the burden of presentment and proof with respect to any such showing, can demonstrate that there is a concurrent forced generation outage and Delmarva had scheduled with PJM a transmission maintenance outage prior to the forced generation outage and that, in the absence of such forced generation outage, the scheduled transmission maintenance outage would not have caused congestion for particular hours, then such hours shall be excluded.

b) Step 1 analysis. Within 60 days of exceeding such triggering event thresholds, Delmarva shall be required to prepare an analysis of the economic impacts of the congestion and the economic impacts of transmission projects that would alleviate this congestion to determine cost-effective solutions that would reduce the level of congestion to below the applicable triggering event threshold. The analysis, which will be provided to Staff, would seek to identify the most cost-effective solution irrespective of the number of hours of congestion that would be relieved, e.g., if there were a triggering event where the number of hours exceeded the threshold by 100 hours, but the most cost-effective solution involved construction that would relieve 500 hours of congestion, that 500 hour solution would be implemented pursuant to the mechanisms below. The evaluation would include an analysis of whether the construction of additional Delmarva transmission facilities has a lesser cost than solutions that could be implemented by other market participants.

c) For purposes of Step 1 of this analysis, the determination of whether a solution is "cost-effective" shall consider as a "benefit" only the congestion

charges incurred by Delmarva during the same period that triggered the analysis that would have been avoided if the identified facility(ies) had been in service (the “Incremental Avoided Congestion Charges”).⁴ For purposes of this "cost-effective" analysis, the costs considered will be equal to the net of Delmarva’s total estimated costs of construction minus any “carry-forward net FTR credits” (as defined below) multiplied by Delmarva's carrying cost rate and, for future ratemaking purposes, the actual capitalized rate base costs of construction shall be reduced by the amount of any carry-forward net FTR credits applied. Under no circumstance would rate base or revenue requirements be increased by any negative carry forwards.

d) Step 2 Analysis. In the event that the Step 1 analysis fails to identify a cost-effective solution, a Step 2 analysis would be made, which will add to the Step 1 benefit an amount equal to a ratio of the hours of congestion in excess of the applicable triggering event threshold over the total hours of congestion multiplied by any net positive difference between FTR credits appearing on Delmarva’s PJM bills and Aggregate Congestion Costs.⁵ For future ratemaking purposes, the actual capitalized rate

⁴ “Incremental Avoided Congestion Charges” shall be computed as follows: use the hours of congestion avoided, multiplied by Delmarva’s load in the DPL South Zone multiplied by the difference in LMP between DPL North and DPL South.

⁵ “Aggregate Congestion Costs” shall be defined as: Congestion charges incurred over the relevant period that are separately stated in the PJM congestion charge on Delmarva’s PJM bills (including forward market purchases made through PJM e-schedules) plus congestion costs incurred for interchange transactions (and forward market purchases to the extent not made through PJM e-schedules) that are not reflected separately on the PJM bills. Congestion costs for interchange transactions will be calculated by multiplying the difference between the PJM Zone LMP and the DPL Zone LMP by the interchange transactions for each applicable hour.

base costs of construction shall be reduced by the amount of any carry-forward net FTR credits applied. Under no circumstance would rate base or revenue requirements be increased by any negative carry forwards.

e) In the event that the cost-benefit analysis described above under Step 1 or Step 2 results in a positive benefit (i.e., is cost-effective), Delmarva will construct such project.

f) Step 3 Procedure. In the event that the cost-benefit analysis described above does not result in a positive benefit (i.e., costs are in excess of benefits computed as set forth above), Step 3 will be implemented. Delmarva will seek additional contributions in aid of construction (including tax effects, if applicable) from other market participants. No other entity will be required to contribute to the capital costs of constructing any additional Delmarva transmission facilities that are constructed under the provisions hereof, but if contributions are received (net of tax effects, if applicable), that would eliminate the amount by which costs are in excess of benefits under the Step 1 and 2 analyses, then such project shall be deemed to be cost-effective and Delmarva will construct such project. Delmarva's rate base and associated revenue requirement will not include capital costs contributed by third parties under this provision or the amount of any carry-forward net FTR credits applied. Under no circumstance would rate base or revenue requirements be increased by any negative carry forwards.

g) For each year 2002 through May 2006, the following computations shall be made: i) in the event that a triggering event threshold has been exceeded; ii) no cost-effective project is identified pursuant to the Step 1, Step 2 and Step 3 analyses above; and iii) during the same period there is a difference between FTR credits

appearing on Delmarva's PJM bills minus Aggregate Congestion Charges; then iv) Delmarva shall take such difference (whether positive or negative) and separately reserve for future construction an amount equal to a ratio of the hours of congestion in excess of the applicable triggering event threshold over the total hours of congestion multiplied against any difference between FTR credits appearing on Delmarva's PJM bills and Aggregate Congestion Charges for the same period. These amounts will be the "carry-forward net FTR" credits (if positive) or debits (if negative). To the extent that, in a given year, there is a net credit position (after offsetting any prior year carry-forward net FTR debits), that net credit that will be applied as an offset to the estimated costs for a project identified in a subsequent year to determine whether a project in such subsequent year is cost-effective. To the extent a carry-forward net FTR credit is applied to construct a project that would otherwise not be cost effective, the rate base effects of that project shall be reduced by the amount of carry-forward net FTR credits applied. To the extent any carry-forward net FTR credits exist as of May, 2006, such amounts shall be earmarked for Delmarva's capital budget plan for post-2006 periods and the rate base effects of capital projects constructed with such carry-forward net FTR credits shall be reduced by the amount of carry-forward net FTR credits applied. In the event that a negative carry-forward balance exists as of May 2006, that balance shall be zeroed-out and under no circumstance shall rate base or revenue requirements be increased by any such negative carry-forward balance.

h) Attached hereto (Attachment 2) and incorporated herein are four (4) examples of how the congestion provisions herein will work.

i) Delmarva will file with the Staff semi-annual reports on or before each August 1 (for the period January – June) and on or before February 1 (for the previous calendar year), which reports shall contain the FTR, congestion costs, congestion hours and other data applicable to the requirements in this subsection II.N.

5. In the event that a cost-effective project is identified that should result in Delmarva constructing additional transmission facilities on the peninsula pursuant to the mechanisms described in the preceding paragraph N.4, and if Delmarva fails to initiate the construction process within sixty (60) days of the identification of said cost-effective project and complete such construction as soon as practicable, using prudent utility practices, then Delmarva shall be obligated to make funds available to third parties for constructing such facilities; provided, however, that such funds shall not exceed the net positive difference between FTR credits appearing on Delmarva's PJM bills and the Aggregate Congestion Charges multiplied by the ratio of the hours of congestion in excess of the applicable triggering event threshold over the total hours of congestion plus any carry-forward net FTR credits. Delmarva's rate base and associated revenue requirement with respect to such projects constructed by others will include only the capital costs contributed hereunder by Delmarva and will not include any costs incurred by third parties under this provision.

6. ODEC, as a signatory herein, has agreed to complete two planned construction projects located on the South Peninsula (i.e., installation of additional capacitor banks on the A&N Electric Cooperative distribution system to improve the power factor of ODEC's peak load to unity or slightly leading; and establishing a new tap

point on the Oak Hall – Tasley circuit 6778 and transferring some of ODEC’s load presently served from Hallwood - Oak Hall circuit 6790).

7. Irrespective of the provisions of subsection N.4. and irrespective of whether any of the thresholds are exceeded resulting in a triggering event, Delmarva agrees that if ODEC identifies a project that, after Delmarva’s study of the costs and benefits of such project, is determined to provide a cost-effective solution for congestion costs incurred by Delmarva, then Delmarva will construct the project; provided, however, that nothing herein shall be deemed to limit Delmarva’s consideration of alternative projects that could relieve such congestion within a comparable time period and provide similar benefits, including committed expansions of generators on the peninsula by third parties, Delmarva’s already planned transmission facilities or alternative projects.

8. The Settling Parties are aware that PJM has initiated a process that is expected to lead to a proposal for providing incentives and other mechanisms, which may include cost sharing mechanisms that may conflict with those established herein, to encourage the construction of new transmission facilities to relieve congestion in a cost-effective manner. It is agreed by the Settling Parties that, to the extent that a PJM proposal approved by FERC supersedes or conflicts with any of the actions that must be undertaken by Delmarva or other Settling Parties pursuant to this Settlement, then Delmarva shall make a filing for Commission approval of any changes to this Settlement and Delmarva shall have the burden of proving that such a change is necessary in light of the order of the FERC. In such a proceeding, all other parties reserve their rights to oppose such filing and to take positions in such Commission proceeding in their own individual interest. The superseded or conflicting provisions herein, as determined by the

Commission and subject to appeal, shall be of no force of effect and severable from the remaining provisions of this Settlement, which shall continue to be effective.

O. Miscellaneous.

1. As of the date on which no customer is provided service under the Q service classification, which is expected to be November 1, 2002, or sooner, the Q service classification tariff leafs shall be cancelled and removed from Delmarva's Delaware retail electric tariff.

2. The Settling Parties agree and will recommend that the Commission accept pursuant to 26 Del. C. § 1006(a)(2)d., a filing to be made by Delmarva on or before March 1, 2002, in which Delmarva will include schedules demonstrating its overall rate of return based on cost of service data, with a proposal that no rate changes with respect to its regulated services be implemented other than those set forth herein. The Settling Parties shall have the right to review such filing and schedules, except that no recommendation will be made by them to establish new rates or rate changes other than those set forth herein, and the Settling Parties shall oppose or not support any efforts by other entities who might propose rate changes other than those set forth herein.

3. On or before September 1, 2005, Delmarva will file a class cost of service study in sufficient detail to permit a review and determination of the justness and reasonableness of its regulated rates, with any resulting rate changes to take place no earlier than May 1, 2006.

4. Each Settling Party reserves the right to petition the Commission to reopen this proceeding for the purpose of substituting the terms and conditions of this Settlement with the terms and conditions of a different settlement entered into by Delmarva in

Maryland. Such right shall be exercisable only within 30 days of the filing of such settlement made in Maryland and will require the complete replacement of this Settlement with the other settlement, with modifications only to the extent necessary to reflect particular terms used in Delaware that differ from similar terms in other jurisdictions. It is understood by the Settling Parties that the provisions of this Settlement are non-severable and, thus, any substitution of another settlement entered into by Delmarva in Maryland will make null and void all provisions of this Settlement.

5. Contemporaneously or as soon as reasonably practicable, Delmarva shall provide Staff a copy of any initial filing made by Delmarva or PJM before the FERC that would reset transmission rates.

6. In the event that the merger has not closed by June 30, 2002, the Settling Parties agree that:

a) The provisions of subsections II.A. 1, 2, and 3, shall be effective as of October 1, 2002;

b) Delmarva shall be the Standard Offer Service supplier for non-residential customers from October 1, 2002 until June 1, 2003; and

c) Delmarva shall prepare and file prior to November 1, 2002, a class cost of service study in sufficient detail to permit Delmarva or other parties to propose a resetting of distribution rates, with any such distribution rate change to become effective for non-residential customers no earlier than June 1, 2003, and on October 1, 2003 for residential customers.

7. In the event that the merger has not closed by June 30, 2002, but does close prior to October 1, 2002, then the foregoing provisions of subsection II.O.6., to the

extent they are in conflict with any other provision(s) of this Settlement, shall be superseded by such other provision(s) of this Settlement. In the event that the merger has not closed by October 1, 2002, but is still pending, the Settling Parties agree to meet to discuss what, if any, modifications to this Settlement are appropriate.

8. With the exception of section II.F.5., II.H.3, and II.O.6 (incorporating by reference II.A. 1, 2., and 3), the agreements, terms and conditions and provisions of this Settlement are contingent on the closing of the merger and, absent such closing, are of no force or effect.

III. RESERVATIONS

A. This Settlement represents a compromise for the purposes of settlement and shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future case. No Settling Party necessarily agrees or disagrees with the treatment of any particular item, any procedure followed, or the resolution of any particular issue in agreeing to this Settlement other than as specified herein, except that the Settling Parties agree that the resolution of the issues herein, taken as a whole, results in just and reasonable rates, that the disposition of all other matters set forth in the Settlement are in the public convenience, necessity and interest and that, with the disposition of all such matters as set forth herein, the proposed merger indirectly affecting Delmarva and the acquisition of control of Delmarva and CCI by New RC, shall be in accordance with law, for a proper purpose, and consistent with the public interest, as those terms are used in 26 Del. C. § 215, and shall be in accordance with the provisions of 26 Del. C. § 1016.

B. The various provisions of the Settlement are not severable. None of the provisions shall become operative unless and until the Commission issues an order approving the Settlement as to all of the terms and conditions set forth herein without modifications or conditions. The Settlement shall be subject to waiver only by the unanimous written agreement of the Settling Parties. If any portion of this Settlement is modified, conditioned, or rejected by the Commission, the Settlement shall be considered null and void and each Settling Party individually reserves the right to proceed with the filing of testimony, briefs and evidentiary hearings as contemplated in the Commission's Orders in Docket No. 01-194. If the Settlement is rendered null and void by operation of this section III.B., the Settling Parties agree to enter into good faith negotiations to reach a new settlement. Once the Settlement has become operative under the terms of this section III.B., its terms may be revised or waived only by the unanimous written agreement of the Settling Parties.

IV. CONCLUSION

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned parties have caused this Settlement to be signed by their duly-authorized representatives and the undersigned parties further recommend and urge the Commission to issue an order expeditiously approving this Settlement and making the requesting findings and approvals set forth herein.

/s/ Randall V. Griffin
Delmarva Power & Light
Company

/s/ Connie S. McDowell
Delaware Public Service
Commission Staff

/s/ Kirk Emge
Potomac Electric Power Company

/s/ Kirk Emge
New RC, Inc.

/s/ G. Arthur Padmore
Division of the Public Advocate

/s/ David M. Kleppinger
BOC Gases, Inc.

/s/ Louis R. Monacell,
Delaware Electric Users Group

/s/ Lance Haver
Consumers Education & Protective
Association of Delaware

/s/ Michael A. Dennis
International Brotherhood of
Electrical Workers, Local 1307

/s/ Eric M. Page
Old Dominion Electric
Cooperative

/s/ Bernard J. August
Bernard J. August

/s/ E. Paul Bienvenue
Delaware Electric Cooperative

RULES AND REGULATIONS

SECTION XIX – MARKET PRICED SUPPLY SERVICE (“MPSS”)

Market Priced Supply Service (“MPSS”) is the provision of electricity, ancillary, transmission and related services to Customers by the Company and is designed to recover the current market cost of electricity, ancillary and transmission services for combined Electric Supply & Delivery Service Customers. The Market Priced Supply Service charge includes the current market price for capacity, energy, ancillary services, and transmission service for the Company’s service territory.

The Market Priced Supply Service is applicable to any customer who is served under Service Classifications: “MGS-S”, “LGS-S”, “GS-P”, “GS-T”, “ORL”, “OL” or “NCR”, and who has purchased its electric supply services from an Electric Supplier, other than the Company, and returns to the Company for electric supply services for its account. The Customer’s account must remain on MPSS for at least one (1) billing month, after which, and beginning on the Customer’s scheduled meter reading date, the account will be eligible to be served by an Electric Supplier. The Customer may not switch from the Company’s Market Priced Supply Service to the Company’s Standard Offer Service.

The Market Priced Supply Service charge shall be a negotiated market price, if mutually agreeable to the Company and the Customer in each party’s sole discretion, or the sum of the following billing components:

1. The market hourly energy charge which is determined by multiplying the Customer’s hourly load, adjusted for the applicable loss adjustment factor for the Customer’s service voltage level, with the hourly integrated DPL Zone Real Time Locational Marginal Priced (“LMP”), or its successor, as determined and reported by the PJM Interconnection, LLC (“PJM”). When a Customer’s account does not have interval metering, the Customer’s Service Classification’s load profile data will be used to develop the hourly use by customer class that will be adjusted for losses. Using the hourly use and the hourly LMP, or its successor, a customer class average daily energy rate will be developed which will be applied to the Customer’s kWh usage for each day.

RULES AND REGULATIONS

SECTION XIX – MARKET PRICED SUPPLY SERVICE (“MPSS”)

2. The annual ancillary charge which is determined by multiplying DPL’s annual total ancillary service charges for the previous calendar year, as determined and reported by the PJM Interconnection, LLC (“PJM”) and charged to the Company by the ratio of the Customer’s annual peak load contribution for capacity obligation including losses, adjusted for the applicable PJM determined capacity reserve margin factor over Delmarva’s annual capacity obligation including losses, adjusted for the applicable PJM determined capacity reserve margin factor. The annual ancillary charge will be divided by 12 and billed monthly. This ancillary charge supersedes and is in lieu of the “Ancillary Service Energy Rate” component of the applicable Service Classification under which the Customer is receiving Delivery Service.

3. The capacity charge which is determined by multiplying the Customer’s annual peak load contribution for capacity obligation including losses, adjusted for the applicable PJM determined capacity reserve margin factor, by DPL’s average cost of capacity for the billing month. The average cost of capacity is the weighted average, based on “Total MW Cleared,” and the Clearing Prices of the transactions reported in PJM Monthly and the Multi-Monthly Capacity Credit Markets that includes the billing month, adjusted for any PJM Daily Deficiency Penalties charged by PJM to DPL as a result of a shortfall between capacity acquired to serve MPSS customers and the capacity obligation including losses of such customers, as adjusted,

excluding any such Penalties incurred as the result of Delmarva's waste, bad faith or abuse of discretion. MPSS customers shall not be charged any portion of a PJM Daily Deficiency Penalty charged by PJM to DPL as the result of a shortfall between capacity acquired to serve customers not served under the MPSS and the capacity obligations including losses, as adjusted, of such customers.

4 The transmission service charge which shall be as provided in the "Transmission Rate" and/or the "Transmission Demand Rate" components of the applicable Service Classification under which the Customer is receiving Delivery service.

The market hourly energy prices and market daily capacity prices used for the Market Priced Supply Service are available on the PJM internet web site: www.pjm.com. In the event the Customer wishes to track or estimate its costs under this service, it is the Customer's responsibility to construct, operate and maintain, at its sole expense, all communications structures, equipment, and any other apparatus necessary to ensure its timely receipt of the market hourly energy prices and market daily capacity prices for the Customer's use in operating its facility.

Filed December xx, 2001

Effective with Meter Readings
On and After October 1, 2002

Proposed Settlement in Docket No. 01-194

Attachment 2

Illustrative Examples of How Congestion Mechanism Works

- 1) No one else is ever obligated to contribute any funds toward relieving congestion.
- 2) But, the cost-effectiveness test looks initially only to the congestion costs of Delmarva and a portion of any net credits from congestion that Delmarva received during the congestion period. Thus, if Delmarva is the only entity paying to construct the upgrades, the project will be cost effective only if it permits Delmarva to avoid a sufficient amount of congestion to make the project economically viable.
- 3) Only congestion on the Delmarva peninsula "counts." That is for triggering purposes (1000 hours), only congestion hours for which one or more Delmarva facilities are listed as the Contingency on PJM's Off-Cost Operations data "count," subject to defined exclusions for forced generation and transmission outages and construction. For cost-effectiveness purposes, one looks at the total amount of congestion that would have been avoided if the analyzed facility(ies) had been in service. Special rules apply to adjust the cost-effectiveness test for periods in which there are FTR credits that exceed Delmarva's congestion charges and to earmark funds when cost-effective projects are identified but not constructed.
- 4) EXAMPLE 1:

STEP 1 ANALYSIS

In 2002, there are 1,200 hours of congestion on the Delmarva peninsula based on PJM's Off Cost Operations data.
Associated congestion costs for Delmarva is \$200,000.
Associated congestion costs for ODEC is \$100,000.
Associated congestion costs for other market participants is \$50,000.
Analysis indicates that the least-cost option to reduce congestion levels below 1,000 is an upgrade to a Delmarva facility that would reduce congestion hours by 500 hours.
Analysis indicates that had the upgrade been in place during 2002, there would have been \$100,000 less congestion for Delmarva, \$80,000 less congestion for ODEC, and \$20,000 less congestion for other market participants.
Congestion costs exceed FTR credits.

Estimated carrying cost of the facility is: \$80,000.

Result: Project is cost-effective for Delmarva under the Step 1 Analysis to construct without a contribution from other entities. Estimated "savings" for Delmarva

are \$100,000, and estimated carrying costs are \$80,000. When transmission rates are next reset, rate base would increase by cost of project.

EXAMPLE 2:

STEP 2 ANALYSIS

Same facts as above, except that:

Estimated carrying cost of the facility is \$110,000, and
During 2002, FTR credits on the PJM bills are \$240,000
higher than Delmarva's congestion costs.

Step 1 Result: Project is not cost-effective for Delmarva to construct under the Step 1 Analysis. Estimated "savings" for Delmarva are \$100,000, but estimated carrying costs are \$110,000.

Step 2 Result. The ratio of excess congestion over the total hours of congestion (200/1200) is multiplied against the \$240,000 in net FTR credits, which result is deemed to provide an additional \$20,000 in "benefits" toward the cost-effectiveness test. Project is "cost-effective" for Delmarva to construct. Estimated savings and deemed benefits are \$100,000 plus \$20,000 and estimated carrying costs are \$110,000. When transmission rates are next reset, rate base would increase by the cost of the project minus the \$20,000 in carry-forward net FTR credits applied.

EXAMPLE 3:

STEP 3 ANALYSIS

Same facts as in Example 2, except that Estimated carrying cost of the facility are \$130,000; ODEC's load ratio share is 30%, and its congestion savings are calculated by ODEC to be \$50,000.

STEP 1 Analysis Result: Project is not cost-effective for Delmarva to construct. Estimated "savings" for Delmarva is \$100,000, but estimated carrying costs are \$130,000.

STEP 2 Analysis Result: Project is not cost-effective to construct. Estimated savings and deemed FTR benefits are \$100,000 plus \$20,000, but estimated carrying costs are \$130,000.

STEP 3 Analysis Result. Other load serving entities are solicited for an additional contribution, plus CIAC tax effects. It is recognized that an entity making a load ratio share contribution plus CIAC tax effects would still be subject to a load-ratio share of any transmission rate increases caused by Delmarva's contribution to the project. In recognition of this, but without an intent to create a one-for-one offset, the contribution solicited would be no larger than necessary to close the "gap." That is, for example, ODEC would not be requested to provide 30% of the capital costs with annual carrying charges of \$130,000 of project (plus CIAC tax effects), but rather only the capital costs associated with annual carrying charges of \$10,000 (plus CIAC tax effects). Under this scenario, while Delmarva saves \$100,000 in congestion costs and ODEC saves \$50,000; Delmarva will expend capital associated with \$120,000 in carrying costs, while ODEC will expend capital associated with \$10,000. Presumably, ODEC would make a capital contribution in its own economic interest. When transmission rates are next reset, rate base would increase by the cost of the project minus the CIAC contributed by others and the \$20,000 in carry-forward net FTR credits applied.

EXAMPLE 4

Same as in Example 3, but ODEC's calculation of its estimated congestion savings are only \$5,000, and no other market participant makes a contribution.

Result: Under all three Steps, the project is not cost-effective and is not constructed. Delmarva, however, earmarks \$20,000 toward future projects and to the extent not offset in future years by a negative carry-forward net FTR credit, the rate base effect of such future projects would be reduced by \$20,000.